

Union Calendar No.

108TH CONGRESS
1ST SESSION

H. R. 2

[Report No. 108–94]

To amend the Internal Revenue Code of 1986 to provide additional tax incentives to encourage economic growth.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 27, 2003

Mr. THOMAS introduced the following bill; which was referred to the
Committee on Ways and Means

MAY , 2003

Reported with amendments, committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

[For text of introduced bill, see copy of bill as introduced on February 27, 2003]

A BILL

To amend the Internal Revenue Code of 1986 to provide
additional tax incentives to encourage economic growth.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*



1 **SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CON-**
 2 **TENTS.**

3 (a) *SHORT TITLE.*—*This Act may be cited as the “Jobs*
 4 *and Growth Reconciliation Tax Act of 2003”.*

5 (b) *AMENDMENT OF 1986 CODE.*—*Except as otherwise*
 6 *expressly provided, whenever in this Act an amendment or*
 7 *repeal is expressed in terms of an amendment to, or repeal*
 8 *of, a section or other provision, the reference shall be consid-*
 9 *ered to be made to a section or other provision of the Inter-*
 10 *nal Revenue Code of 1986.*

11 (c) *TABLE OF CONTENTS.*—*The table of contents of this*
 12 *Act is as follows:*

Sec. 1. Short title; references; table of contents.

**TITLE I—ACCELERATION OF CERTAIN PREVIOUSLY ENACTED TAX
REDUCTIONS**

Sec. 101. Acceleration of increase in child tax credit.

*Sec. 102. Acceleration of 15-percent individual income tax rate bracket expansion
for married taxpayers filing joint returns.*

*Sec. 103. Acceleration of increase in standard deduction for married taxpayers
filing joint returns.*

*Sec. 104. Acceleration of 10-percent individual income tax rate bracket expan-
sion.*

Sec. 105. Acceleration of reduction in individual income tax rates.

Sec. 106. Minimum tax relief to individuals.

TITLE II—GROWTH INCENTIVES FOR BUSINESS

Sec. 201. Increase and extension of bonus depreciation.

Sec. 202. Increased expensing for small business.

Sec. 203. 5-year carryback of certain net operating losses.

**TITLE III—REDUCTIONS IN TAXES ON DIVIDENDS AND CAPITAL
GAINS**

*Sec. 301. Reduction in capital gains rates for individuals; repeal of 5-year hold-
ing period requirement.*

Sec. 302. Dividends of individuals taxed at capital gain rates.

Sec. 303. Sunset of title.



TITLE IV—CORPORATE ESTIMATED TAX PAYMENTS FOR 2003.

Sec. 401. Time for payment of corporate estimated taxes.

1 TITLE I—ACCELERATION OF
2 CERTAIN PREVIOUSLY EN-
3 ACTED TAX REDUCTIONS

4 SEC. 101. ACCELERATION OF INCREASE IN CHILD TAX
5 CREDIT.

6 (a) *IN GENERAL.*—*The items relating to calendar*
7 *years 2001 through 2008 in the table contained in para-*
8 *graph (2) of section 24(a) (relating to per child amount)*
9 *are amended to read as follows:*

“2003, 2004, 2005	\$1,000
2006, 2007, or 2008	700”.

10 (b) *ADVANCE PAYMENT OF PORTION OF INCREASED*
11 *CREDIT IN 2003.*—

12 (1) *IN GENERAL.*—*Subchapter B of chapter 65*
13 *(relating to abatements, credits, and refunds) is*
14 *amended by inserting after section 6428 the following*
15 *new section:*

16 “**SEC. 6429. ADVANCE PAYMENT OF PORTION OF IN-**
17 **CREASED CHILD CREDIT FOR 2003.**

18 “(a) *IN GENERAL.*—*Each taxpayer who claimed a*
19 *credit under section 24 on the return for the taxpayer’s first*
20 *taxable year beginning in 2002 shall be treated as having*
21 *made a payment against the tax imposed by chapter 1 for*



1 *such taxable year in an amount equal to the child tax credit*
2 *refund amount (if any) for such taxable year.*

3 “(b) *CHILD TAX CREDIT REFUND AMOUNT.*—*For pur-*
4 *poses of this section, the child tax credit refund amount is*
5 *the amount by which the aggregate credits allowed under*
6 *part IV of subchapter A of chapter 1 for such first taxable*
7 *year would have been increased if—*

8 “(1) *the per child amount under section 24(a)(2)*
9 *for such year were \$1,000,*

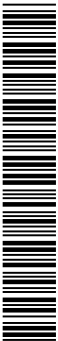
10 “(2) *only qualifying children (as defined in sec-*
11 *tion 24(c)) of the taxpayer for such year who had not*
12 *attained age 17 as of December 31, 2003, were taken*
13 *into account, and*

14 “(3) *section 24(d)(1)(B)(ii) did not apply.*

15 “(c) *TIMING OF PAYMENTS.*—*In the case of any over-*
16 *payment attributable to this section, the Secretary shall,*
17 *subject to the provisions of this title, refund or credit such*
18 *overpayment as rapidly as possible and, to the extent prac-*
19 *ticable, before October 1, 2003. No refund or credit shall*
20 *be made or allowed under this section after December 31,*
21 *2003.*

22 “(d) *COORDINATION WITH CHILD TAX CREDIT.*—

23 “(1) *IN GENERAL.*—*The amount of credit which*
24 *would (but for this subsection and section 26) be al-*
25 *lowed under section 24 for the taxpayer’s first taxable*



1 year beginning in 2003 shall be reduced (but not
2 below zero) by the payments made to the taxpayer
3 under this section. Any failure to so reduce the credit
4 shall be treated as arising out of a mathematical or
5 clerical error and assessed according to section
6 6213(b)(1).

7 “(2) *JOINT RETURNS.*—In the case of a payment
8 under this section with respect to a joint return, half
9 of such payment shall be treated as having been made
10 to each individual filing such return.

11 “(e) *NO INTEREST.*—No interest shall be allowed on
12 any overpayment attributable to this section.”.

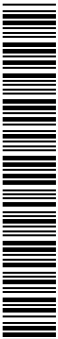
13 (2) *CLERICAL AMENDMENT.*—The table of sec-
14 tions for subchapter B of chapter 65 is amended by
15 adding at the end the following new item:

“Sec. 6429. Advance payment of portion of increased child credit for 2003.”.

16 (c) *EFFECTIVE DATES.*—

17 (1) *SUBSECTION (a).*—The amendment made by
18 subsection (a) shall apply to taxable years beginning
19 after December 31, 2002.

20 (2) *SUBSECTION (b).*—The amendments made by
21 subsection (b) shall take effect on the date of the en-
22 actment of this Act.



1 **SEC. 102. ACCELERATION OF 15-PERCENT INDIVIDUAL IN-**
 2 **COME TAX RATE BRACKET EXPANSION FOR**
 3 **MARRIED TAXPAYERS FILING JOINT RE-**
 4 **TURNS.**

5 (a) *IN GENERAL.*—*The item relating to 2005 in the*
 6 *table contained in subparagraph (B) of section 1(f)(8) (re-*
 7 *lating to applicable percentage) is amended to read as fol-*
 8 *lows:*

“2003, 2004, and 2005 200”.

9 (b) *CONFORMING AMENDMENTS.*—

10 (1) *Section 1(f)(8)(A) is amended by striking*
 11 *“2004” and inserting “2002”.*

12 (2) *Section 302(c) of the Economic Growth and*
 13 *Tax Relief Reconciliation Act of 2001 is amended by*
 14 *striking “2004” and inserting “2002”.*

15 (c) *EFFECTIVE DATE.*—*The amendments made by this*
 16 *section shall apply to taxable years beginning after Decem-*
 17 *ber 31, 2002.*

18 **SEC. 103. ACCELERATION OF INCREASE IN STANDARD DE-**
 19 **DUCTION FOR MARRIED TAXPAYERS FILING**
 20 **JOINT RETURNS.**

21 (a) *IN GENERAL.*—*The item relating to 2005 in the*
 22 *table contained in paragraph (7) of section 63(c) (relating*
 23 *to applicable percentage) is amended to read as follows:*

“2003, 2004, and 2005 200”.



1 (b) *CONFORMING AMENDMENT.*—Section 301(d) of the
2 *Economic Growth and Tax Relief Reconciliation Act of*
3 *2001 is amended by striking “2004” and inserting “2002”.*

4 (c) *EFFECTIVE DATE.*—The amendments made by this
5 section shall apply to taxable years beginning after Decem-
6 ber 31, 2002.

7 **SEC. 104. ACCELERATION OF 10-PERCENT INDIVIDUAL IN-**
8 **COME TAX RATE BRACKET EXPANSION.**

9 (a) *IN GENERAL.*—Clause (i) of section 1(i)(1)(B) (re-
10 lating to the initial bracket amount) is amended by striking
11 “(\$12,000 in the case of taxable years beginning before Jan-
12 uary 1, 2008)” and inserting “(\$12,000 in the case of tax-
13 able years beginning after December 31, 2005, and before
14 January 1, 2008)”.

15 (b) *INFLATION ADJUSTMENT.*—Subparagraph (C) of
16 section 1(i)(1) is amended to read as follows:

17 “(C) *INFLATION ADJUSTMENT.*—In pre-
18 scribing the tables under subsection (f) which
19 apply with respect to taxable years beginning in
20 calendar years after 2000—

21 “(i) the Secretary shall make no ad-
22 justment to the \$12,000 initial bracket
23 amount for any taxable year,

24 “(ii)(I) the Secretary shall make no
25 adjustment to the \$14,000 initial bracket



1 *amount for any taxable year beginning be-*
2 *fore January 1, 2004,*

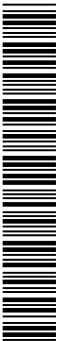
3 *“(II) the cost-of-living adjustment used*
4 *in making adjustments to the \$14,000 ini-*
5 *tial bracket amount for any taxable year be-*
6 *ginning during 2004 or 2005 shall be deter-*
7 *mined under subsection (f)(3) by sub-*
8 *stituting ‘2002’ for ‘1992’ in subparagraph*
9 *(B) thereof, and*

10 *“(III) the cost-of-living adjustment*
11 *used in making adjustments to the \$14,000*
12 *initial bracket amount for any taxable year*
13 *beginning after December 31, 2008, shall be*
14 *determined under subsection (f)(3) by sub-*
15 *stituting ‘2007’ for ‘1992’ in subparagraph*
16 *(B) thereof, and*

17 *“(iii) the adjustments under clause (ii)*
18 *shall not apply to the amount referred to in*
19 *subparagraph (B)(iii).*

20 *If any amount after adjustment under the pre-*
21 *ceding sentence is not a multiple of \$50, such*
22 *amount shall be rounded to the next lowest mul-*
23 *tiple of \$50.”*

24 *(c) EFFECTIVE DATE.—*



1 (1) *IN GENERAL.*—*The amendments made by*
 2 *this section shall apply to taxable years beginning*
 3 *after December 31, 2002.*

4 (2) *TABLES FOR 2003.*—*The Secretary of the*
 5 *Treasury shall modify each table which has been pre-*
 6 *scribed under section 1(f) of the Internal Revenue*
 7 *Code of 1986 for taxable years beginning in 2003 and*
 8 *which relates to the amendment made by this section*
 9 *to reflect such amendment.*

10 **SEC. 105. ACCELERATION OF REDUCTION IN INDIVIDUAL**
 11 **INCOME TAX RATES.**

12 (a) *IN GENERAL.*—*The table in paragraph (2) of sec-*
 13 *tion 1(i) (relating to reductions in rates after June 30,*
 14 *2001) is amended to read as follows:*

<i>“In the case of taxable years beginning during calendar year:</i>	<i>The corresponding percentages shall be substituted for the following percentages:</i>			
	28%	31%	36%	39.6%
<i>2001</i>	<i>27.5%</i>	<i>30.5%</i>	<i>35.5%</i>	<i>39.1%</i>
<i>2002</i>	<i>27.0%</i>	<i>30.0%</i>	<i>35.0%</i>	<i>38.6%</i>
<i>2003 and thereafter</i>	<i>25.0%</i>	<i>28.0%</i>	<i>33.0%</i>	<i>35.0%”.</i>

15 (b) *EFFECTIVE DATE.*—*The amendment made by this*
 16 *section shall apply to taxable years beginning after Decem-*
 17 *ber 31, 2002.*

18 **SEC. 106. MINIMUM TAX RELIEF TO INDIVIDUALS.**

19 (a) *IN GENERAL.*—

20 (1) *Subparagraph (A) of section 55(d)(1) is*
 21 *amended by striking “\$49,000 in the case of taxable*
 22 *years beginning in 2001, 2002, 2003, and 2004” and*



1 inserting “\$64,000 in the case of taxable years begin-
2 ning in 2003, 2004, and 2005”.

3 (2) Subparagraph (B) of section 55(d)(1) is
4 amended by striking “\$35,750 in the case of taxable
5 years beginning in 2001, 2002, 2003, and 2004” and
6 inserting “\$43,250 in the case of taxable years begin-
7 ning in 2003, 2004, and 2005”.

8 (b) *EFFECTIVE DATE.*—The amendments made by sub-
9 section (a) shall apply to taxable years beginning after De-
10 cember 31, 2002.

11 **TITLE II—GROWTH INCENTIVES** 12 **FOR BUSINESS**

13 **SEC. 201. INCREASE AND EXTENSION OF BONUS DEPRECIA-** 14 **TION.**

15 (a) *IN GENERAL.*—Section 168(k) (relating to special
16 allowance for certain property acquired after September 10,
17 2001, and before September 11, 2004) is amended by adding
18 at the end the following new paragraph:

19 “(4) *50-PERCENT BONUS DEPRECIATION FOR*
20 *CERTAIN PROPERTY.*—

21 “(A) *IN GENERAL.*—In the case of 50-per-
22 cent bonus depreciation property—

23 “(i) paragraph (1)(A) shall be applied
24 by substituting ‘50 percent’ for ‘30 percent’,
25 and



1 “(ii) except as provided in paragraph
2 (2)(C), such property shall be treated as
3 qualified property for purposes of this sub-
4 section.

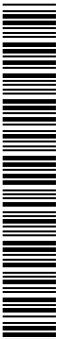
5 “(B) 50-PERCENT BONUS DEPRECIATION
6 PROPERTY.—For purposes of this subsection, the
7 term ‘50-percent bonus depreciation property’
8 means property described in paragraph
9 (2)(A)(i)—

10 “(i) the original use of which com-
11 mences with the taxpayer after May 5,
12 2003,

13 “(ii) which is acquired by the taxpayer
14 after May 5, 2003, and before January 1,
15 2006, but only if no written binding con-
16 tract for the acquisition was in effect before
17 May 6, 2003, and

18 “(iii) which is placed in service by the
19 taxpayer before January 1, 2006, or, in the
20 case of property described in paragraph
21 (2)(B) (as modified by subparagraph (C) of
22 this paragraph), before January 1, 2007.

23 “(C) SPECIAL RULES.—Rules similar to the
24 rules of subparagraphs (B) and (D) of para-
25 graph (2) shall apply for purposes of this para-



1 *graph; except that references to September 10,*
2 *2001, shall be treated as references to May 5,*
3 *2003.*

4 “(D) *AUTOMOBILES.*—Paragraph (2)(E)
5 *shall be applied by substituting ‘\$9,200’ for*
6 *‘\$4,600’ in the case of 50-percent bonus deprecia-*
7 *tion property.*

8 “(E) *ELECTION OF 30 PERCENT BONUS.*—If
9 *a taxpayer makes an election under this sub-*
10 *paragraph with respect to any class of property*
11 *for any taxable year, subparagraph (A)(i) shall*
12 *not apply to all property in such class placed in*
13 *service during such taxable year.”*

14 (b) *EXTENSION OF PLACED IN SERVICE DATES, ETC.*
15 *FOR 30-PERCENT BONUS DEPRECIATION PROPERTY.*—

16 (1) *IN GENERAL.*—Clause (iv) of section
17 *168(k)(2)(A) is amended—*

18 (A) *by striking “January 1, 2005” and in-*
19 *serting “January 1, 2006”, and*

20 (B) *by striking “January 1, 2006” (as in*
21 *effect before the amendment made by subpara-*
22 *graph (A)) and inserting “January 1, 2007”.*

23 (2) *PORTION OF BASIS TAKEN INTO ACCOUNT.*—

24 (A) *Subparagraphs (B)(ii) and (D)(i) of*
25 *section 168(k)(2) are each amended by striking*



1 *“September 11, 2004” each place it appears in*
2 *the text and inserting “January 1, 2006”.*

3 *(B) Clause (ii) of section 168(k)(2)(B) is*
4 *amended by striking “PRE-SEPTEMBER 11, 2004”*
5 *in the heading and inserting “PRE-JANUARY 1,*
6 *2006”.*

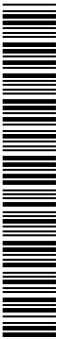
7 *(3) ACQUISITION DATE.—Clause (iii) of section*
8 *168(k)(2)(A) is amended by striking “September 11,*
9 *2004” each place it appears and inserting “January*
10 *1, 2006”.*

11 *(4) ELECTION.—Clause (iii) of section*
12 *168(k)(2)(C) is amended by adding at the end the fol-*
13 *lowing: “The preceding sentence shall be applied sepa-*
14 *rately with respect to property treated as qualified*
15 *property by paragraph (4) and other qualified prop-*
16 *erty.”*

17 *(c) CONFORMING AMENDMENTS.—*

18 *(1) The subsection heading for section 168(k) is*
19 *amended by striking “SEPTEMBER 11, 2004” and in-*
20 *serting “JANUARY 1, 2006”.*

21 *(2) The heading for clause (i) of section*
22 *1400L(b)(2)(C) is amended by striking “30-PERCENT*
23 *ADDITIONAL ALLOWABLE PROPERTY” and inserting*
24 *“BONUS DEPRECIATION PROPERTY UNDER SECTION*
25 *168(k)”.*



1 (d) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to taxable years ending after the date*
3 *of the enactment of this Act.*

4 **SEC. 202. INCREASED EXPENSING FOR SMALL BUSINESS.**

5 (a) *IN GENERAL.*—*Paragraph (1) of section 179(b)*
6 *(relating to dollar limitation) is amended to read as follows:*

7 “(1) *DOLLAR LIMITATION.*—*The aggregate cost*
8 *which may be taken into account under subsection (a)*
9 *for any taxable year shall not exceed \$25,000*
10 *(\$100,000 in the case of taxable years beginning after*
11 *2002 and before 2008).’.*”

12 (b) *INCREASE IN QUALIFYING INVESTMENT AT WHICH*
13 *PHASEOUT BEGINS.*—*Paragraph (2) of section 179(b) (re-*
14 *lating to reduction in limitation) is amended by inserting*
15 *“(\$400,000 in the case of taxable years beginning after 2002*
16 *and before 2008)” after “\$200,000”.*

17 (c) *OFF-THE-SHELF COMPUTER SOFTWARE.*—*Para-*
18 *graph (1) of section 179(d) (defining section 179 property)*
19 *is amended to read as follows:*

20 “(1) *SECTION 179 PROPERTY.*—*For purposes of*
21 *this section, the term ‘section 179 property’ means*
22 *property—*

23 “(A) *which is—*

24 “(i) *tangible property (to which section*
25 *168 applies), or*



1 “(ii) computer software (as defined in
2 section 197(e)(3)(B)) which is described in
3 section 197(e)(3)(A)(i), to which section 167
4 applies, and which is placed in service in a
5 taxable year beginning after 2002 and be-
6 fore 2008,

7 “(B) which is section 1245 property (as de-
8 fined in section 1245(a)(3)), and

9 “(C) which is acquired by purchase for use
10 in the active conduct of a trade or business.

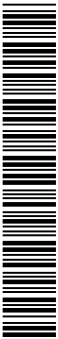
11 Such term shall not include any property described in
12 section 50(b) and shall not include air conditioning
13 or heating units.”.

14 (d) *ADJUSTMENT OF DOLLAR LIMIT AND PHASEOUT*
15 *THRESHOLD FOR INFLATION.*—Subsection (b) of section
16 179 (relating to limitations) is amended by adding at the
17 end the following new paragraph:

18 “(5) *INFLATION ADJUSTMENTS.*—

19 “(A) *IN GENERAL.*—In the case of any tax-
20 able year beginning in a calendar year after
21 2003 and before 2008, the \$100,000 and
22 \$400,000 amounts in paragraphs (1) and (2)
23 shall each be increased by an amount equal to—

24 “(i) such dollar amount, multiplied by



1 “(ii) *the cost-of-living adjustment de-*
2 *termined under section 1(f)(3) for the cal-*
3 *endar year in which the taxable year be-*
4 *gins, by substituting ‘calendar year 2002’*
5 *for ‘calendar year 1992’ in subparagraph*
6 *(B) thereof.*

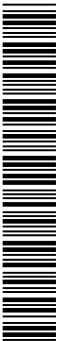
7 “(B) *ROUNDING.—*

8 “(i) *DOLLAR LIMITATION.—If the*
9 *amount in paragraph (1) as increased*
10 *under subparagraph (A) is not a multiple*
11 *of \$1,000, such amount shall be rounded to*
12 *the nearest multiple of \$1,000.*

13 “(ii) *PHASEOUT AMOUNT.—If the*
14 *amount in paragraph (2) as increased*
15 *under subparagraph (A) is not a multiple*
16 *of \$10,000, such amount shall be rounded to*
17 *the nearest multiple of \$10,000.”.*

18 “(e) *REVOCATION OF ELECTION.—Paragraph (2) of sec-*
19 *tion 179(c) (relating to election irrevocable) is amended to*
20 *read as follows:*

21 “(2) *REVOCATION OF ELECTION.—An election*
22 *under paragraph (1) with respect to any taxable year*
23 *beginning after 2002 and before 2008, and any speci-*
24 *fication contained in any such election, may be re-*



1 voked by the taxpayer with respect to any property.
2 Such revocation, once made, shall be irrevocable.”.

3 (f) *EFFECTIVE DATE.*—The amendments made by this
4 section shall apply to taxable years beginning after Decem-
5 ber 31, 2002.

6 **SEC. 203. 5-YEAR CARRYBACK OF CERTAIN NET OPERATING**
7 **LOSSES.**

8 (a) *IN GENERAL.*—Subparagraph (H) of section
9 172(b)(1) is amended—

10 (1) by inserting “5-YEAR CARRYBACK OF CER-
11 TAIN LOSSES.—” after “(H)”, and

12 (2) by striking “or 2002” and inserting “, 2002,
13 2003, 2004 or 2005”.

14 (b) *TEMPORARY SUSPENSION OF 90 PERCENT LIMIT*
15 *ON CERTAIN NOL CARRYBACKS.*—Subclause (I) of section
16 56(d)(1)(A)(ii) is amended—

17 (1) by striking “or 2002” and inserting “, 2002,
18 2003, 2004, or 2005”, and

19 (2) by striking “and 2002” and inserting “,
20 2002, 2003, 2004, or 2005”.

21 (c) *TECHNICAL CORRECTIONS.*—

22 (1) Subparagraph (H) of section 172(b)(1) is
23 amended by striking “a taxpayer which has”.

24 (2) Section 102(c)(2) of the Job Creation and
25 Worker Assistance Act of 2002 (Public Law 107–147)



1 *is amended by striking “before January 1, 2003” and*
2 *inserting “after December 31, 1990”.*

3 (3)(A) *Subclause (I) of section 56(d)(1)(A)(i) is*
4 *amended by striking “attributable to carryovers”.*

5 (B) *Subclause (I) of section 56(d)(1)(A)(ii) is*
6 *amended—*

7 (i) *by striking “for taxable years” and in-*
8 *serting “from taxable years”, and*

9 (ii) *by striking “carryforwards” and insert-*
10 *ing “carryovers”.*

11 (d) *EFFECTIVE DATES.—*

12 (1) *IN GENERAL.—Except as provided in para-*
13 *graph (2), the amendments made by this section shall*
14 *apply to net operating losses for taxable years ending*
15 *after December 31, 2002.*

16 (2) *TECHNICAL CORRECTIONS.—The amend-*
17 *ments made by subsection (c) shall take effect as if in-*
18 *cluded in the amendments made by section 102 of the*
19 *Job Creation and Worker Assistance Act of 2002.*

20 (3) *ELECTION.—In the case of a net operating*
21 *loss for a taxable year ending during 2003—*

22 (A) *any election made under section*
23 *172(b)(3) of such Code may (notwithstanding*
24 *such section) be revoked before November 1, 2003,*
25 *and*



1 (B) any election made under section 172(j)
2 of such Code shall (notwithstanding such section)
3 be treated as timely made if made before Novem-
4 ber 1, 2003.

5 **TITLE III—REDUCTION IN TAXES**
6 **ON DIVIDENDS AND CAPITAL**
7 **GAINS**

8 **SEC. 301. REDUCTION IN CAPITAL GAINS RATES FOR INDIVIDUALS; REPEAL OF 5-YEAR HOLDING PERIOD REQUIREMENT.**

11 (a) *IN GENERAL.*—

12 (1) Sections 1(h)(1)(B) and 55(b)(3)(B) are each
13 amended by striking “10 percent” and inserting “5
14 percent”.

15 (2) The following sections are each amended by
16 striking “20 percent” and inserting “15 percent”:

17 (A) Section 1(h)(1)(C).

18 (B) Section 55(b)(3)(C).

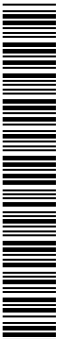
19 (C) Section 1445(e)(1).

20 (D) The second sentence of section
21 7518(g)(6)(A).

22 (E) The second sentence of section
23 607(h)(6)(A) of the Merchant Marine Act, 1936.

24 (b) *CONFORMING AMENDMENTS.*—

25 (1) Section 1(h) is amended—



1 (A) by striking paragraphs (2) and (9),
2 (B) by redesignating paragraphs (3)
3 through (8) as paragraphs (2) through (7), re-
4 spectively, and
5 (C) by redesignating paragraphs (10), (11),
6 and (12) as paragraphs (8), (9), and (10), re-
7 spectively.

8 (2) Paragraph (3) of section 55(b) is amended by
9 striking “In the case of taxable years beginning after
10 December 31, 2000, rules similar to the rules of sec-
11 tion 1(h)(2) shall apply for purposes of subpara-
12 graphs (B) and (C).”.

13 (3) Paragraph (7) of section 57(a) is amended—

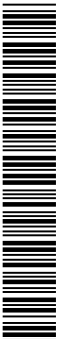
14 (A) by striking “42 percent” the first place
15 it appears and inserting “7 percent”, and

16 (B) by striking the last sentence.

17 (c) TRANSITIONAL RULES FOR TAXABLE YEARS
18 WHICH INCLUDE MAY 6, 2003.—For purposes of applying
19 section 1(h) of the Internal Revenue Code of 1986 in the
20 case of a taxable year which includes May 6, 2003—

21 (1) The amount of tax determined under sub-
22 paragraph (B) of section 1(h)(1) of such Code shall be
23 the sum of—

24 (A) 5 percent of the lesser of—



1 (i) the net capital gain determined by
2 taking into account only gain or loss prop-
3 erly taken into account for the portion of
4 the taxable year on or after May 6, 2003
5 (determined without regard to collectibles
6 gain or loss, gain described in section
7 1(h)(6)(A)(i) of such Code, and section 1202
8 gain), or

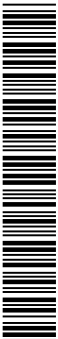
9 (ii) the amount on which a tax is de-
10 termined under such subparagraph (without
11 regard to this subsection),

12 (B) 8 percent of the lesser of—

13 (i) the qualified 5-year gain (as de-
14 fined in section 1(h)(9) of the Internal Rev-
15 enue Code of 1986, as in effect on the day
16 before the date of the enactment of this Act)
17 properly taken into account for the portion
18 of the taxable year before May 6, 2003, over

19 (ii) the excess (if any) of—

20 (I) the amount on which a tax is
21 determined under such subparagraph
22 (without regard to this subsection),
23 over



1 (II) the amount on which a tax is
2 determined under subparagraph (A),
3 plus

4 (C) 10 percent of the excess (if any) of—

5 (i) the amount on which a tax is deter-
6 mined under such subparagraph (without
7 regard to this subsection), over

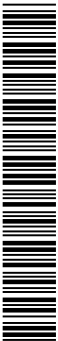
8 (ii) the sum of the amounts on which
9 a tax is determined under subparagraphs
10 (A) and (B).

11 (2) The amount of tax determined under sub-
12 paragraph (C) of section (1)(h)(1) of such Code shall
13 be the sum of—

14 (A) 15 percent of the lesser of—

15 (i) the excess (if any) of the amount of
16 net capital gain determined under subpara-
17 graph (A)(i) of paragraph (1) of this sub-
18 section over the amount on which a tax is
19 determined under subparagraph (A) of
20 paragraph (1) of this subsection, or

21 (ii) the amount on which a tax is de-
22 termined under such subparagraph (C)
23 (without regard to this subsection), plus
24 (B) 20 percent of the excess (if any) of—



1 (i) the amount on which a tax is deter-
2 mined under such subparagraph (C) (with-
3 out regard to this subsection), over

4 (ii) the amount on which a tax is de-
5 termined under subparagraph (A) of this
6 paragraph.

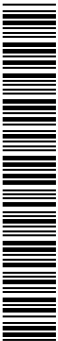
7 (3) For purposes of applying section 55(b)(3) of
8 such Code, rules similar to the rules of paragraphs (1)
9 and (2) of this subsection shall apply.

10 (4) In applying this subsection with respect to
11 any pass-thru entity, the determination of when gains
12 and loss are properly taken into account shall be
13 made at the entity level.

14 (5) For purposes of applying section 1(h)(11) of
15 such Code, as added by section 302 of this Act, to this
16 subsection, dividends which are qualified dividend in-
17 come shall be treated as gain properly taken into ac-
18 count for the portion of the taxable year on or after
19 May 6, 2003.

20 (6) Terms used in this subsection which are also
21 used in section 1(h) of such Code shall have the re-
22 spective meanings that such terms have in such sec-
23 tion.

24 (d) *EFFECTIVE DATES.*—



1 (1) *IN GENERAL.*—*Except as otherwise provided*
2 *by this subsection, the amendments made by this sec-*
3 *tion shall apply to taxable years ending on or after*
4 *May 6, 2003.*

5 (2) *WITHHOLDING.*—*The amendment made by*
6 *subsection (a)(2)(C) shall apply to amounts paid*
7 *after the date of the enactment of this Act.*

8 (3) *SMALL BUSINESS STOCK.*—*The amendments*
9 *made by subsection (b)(3) shall apply to dispositions*
10 *on or after May 6, 2003.*

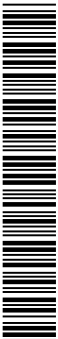
11 **SEC. 302. DIVIDENDS OF INDIVIDUALS TAXED AT CAPITAL**
12 **GAIN RATES.**

13 (a) *IN GENERAL.*—*Section 1(h) (relating to maximum*
14 *capital gains rate), as amended by section 301, is amended*
15 *by adding at the end the following new paragraph:*

16 “(11) *DIVIDENDS TAXED AS NET CAPITAL*
17 *GAIN.*—

18 “(A) *IN GENERAL.*—*For purposes of this*
19 *subsection, the term ‘net capital gain’ means net*
20 *capital gain (determined without regard to this*
21 *paragraph), increased by qualified dividend in-*
22 *come.*

23 “(B) *QUALIFIED DIVIDEND INCOME.*—*For*
24 *purposes of this paragraph—*



1 “(i) *IN GENERAL.*—The term ‘qualified
2 *dividend income*’ means dividends received
3 *during the taxable year from domestic cor-*
4 *porations.*

5 “(ii) *CERTAIN DIVIDENDS EX-*
6 *CLUDED.*—Such term shall not include—

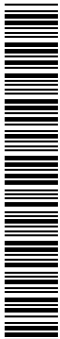
7 “(I) *any dividend from a corpora-*
8 *tion which for the taxable year of the*
9 *corporation in which the distribution*
10 *is made, or the preceding taxable year,*
11 *is a corporation exempt from tax*
12 *under section 501 or 521,*

13 “(II) *any amount allowed as a*
14 *deduction under section 591 (relating*
15 *to deduction for dividends paid by mu-*
16 *tual savings banks, etc.), and*

17 “(III) *any dividend described in*
18 *section 404(k).*

19 “(iii) *EXCLUSION OF CERTAIN DIVI-*
20 *DENDS.*—Such term shall not include any
21 *dividend on any share of stock—*

22 “(I) *with respect to which the*
23 *holding period requirements of section*
24 *246(c) are not met, or*



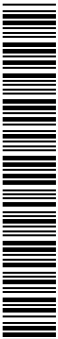
1 “(II) to the extent that the tax-
2 payer is under an obligation (whether
3 pursuant to a short sale or otherwise)
4 to make related payments with respect
5 to positions in substantially similar or
6 related property.

7 “(C) SPECIAL RULES.—

8 “(i) AMOUNTS TAKEN INTO ACCOUNT
9 AS INVESTMENT INCOME.—Qualified divi-
10 dend income shall not include any amount
11 which the taxpayer takes into account as
12 investment income under section
13 163(d)(4)(B).

14 “(ii) EXTRAORDINARY DIVIDENDS.—If
15 an individual receives, with respect to any
16 share of stock, qualified dividend income
17 from 1 or more dividends which are ex-
18 traordinary dividends (within the meaning
19 of section 1059(c)), any loss on the sale or
20 exchange of such share shall, to the extent of
21 such dividends, be treated as long-term cap-
22 ital loss.

23 “(iii) TREATMENT OF DIVIDENDS FROM
24 REGULATED INVESTMENT COMPANIES AND
25 REAL ESTATE INVESTMENT TRUSTS.—A div-



1 *idend received from a regulated investment*
2 *company or a real estate investment trust*
3 *shall be subject to the limitations prescribed*
4 *in sections 854 and 857.”*

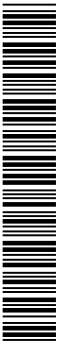
5 *(b) EXCLUSION OF DIVIDENDS FROM INVESTMENT IN-*
6 *COME.—Subparagraph (B) of section 163(d)(4) (defining*
7 *net investment income) is amended by adding at the end*
8 *the following flush sentence:*

9 *“Such term shall include qualified dividend in-*
10 *come (as defined in section 1(h)(11)(B)) only to*
11 *the extent the taxpayer elects to treat such in-*
12 *come as investment income for purposes of this*
13 *subsection.”*

14 *(c) TREATMENT OF DIVIDENDS FROM REGULATED IN-*
15 *VESTMENT COMPANIES.—*

16 *(1) Subsection (a) of section 854 (relating to*
17 *dividends received from regulated investment compa-*
18 *nies) is amended by inserting “section 1(h)(11) (relat-*
19 *ing to maximum rate of tax on dividends and inter-*
20 *est) and” after “For purposes of”.*

21 *(2) Paragraph (1) of section 854(b) (relating to*
22 *other dividends) is amended by redesignating sub-*
23 *paragraph (B) as subparagraph (C) and by inserting*
24 *after subparagraph (A) the following new subpara-*
25 *graph:*



1 “(B) *MAXIMUM RATE UNDER SECTION*
2 *1(h).*—

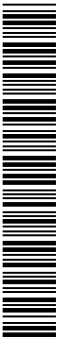
3 “(i) *IN GENERAL.*—*If the aggregate*
4 *dividends received by a regulated invest-*
5 *ment company during any taxable year are*
6 *less than 95 percent of its gross income,*
7 *then, in computing the maximum rate*
8 *under section 1(h)(11), rules similar to the*
9 *rules of subparagraph (A) shall apply.*

10 “(ii) *GROSS INCOME.*—*For purposes of*
11 *clause (i), in the case of 1 or more sales or*
12 *other dispositions of stock or securities, the*
13 *term ‘gross income’ includes only the excess*
14 *of—*

15 “(I) *the net short-term capital*
16 *gain from such sales or dispositions,*
17 *over*

18 “(II) *the net long-term capital*
19 *loss from such sales or dispositions.”*

20 (3) *Subparagraph (C) of section 854(b)(1), as re-*
21 *designated by paragraph (2), is amended by striking*
22 *“subparagraph (A)” and inserting “subparagraph (A)*
23 *or (B)”.*



1 (4) Paragraph (2) of section 854(b) is amended
2 by inserting “the maximum rate under section
3 1(h)(11) and” after “for purposes of”.

4 (5) Subsection (b) of section 854 is amended by
5 adding at the end the following new paragraph:

6 “(5) COORDINATION WITH SECTION 1(h)(11).—For
7 purposes of paragraph (1)(B), an amount shall be
8 treated as a dividend only if the amount is qualified
9 dividend income (within the meaning of section
10 1(h)(11)(B)).”

11 (d) TREATMENT OF DIVIDENDS RECEIVED FROM REAL
12 ESTATE INVESTMENT TRUSTS.—Section 857(c) (relating to
13 restrictions applicable to dividends received from real estate
14 investment trusts) is amended to read as follows:

15 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-
16 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

17 “(1) SECTION 243.—For purposes of section 243
18 (relating to deductions for dividends received by cor-
19 porations), a dividend received from a real estate in-
20 vestment trust which meets the requirements of this
21 part shall not be considered a dividend.

22 “(2) SECTION 1(h)(11).—For purposes of section
23 1(h)(11) (relating to maximum rate of tax on divi-
24 dends), rules similar to the rules of section
25 854(b)(1)(B) shall apply to dividends received from a



1 *real estate trust which meets the requirements of this*
2 *part.”*

3 *(e) CONFORMING AMENDMENTS.—*

4 *(1) Paragraph (3) of section 1(h), as redesign-*
5 *ated by section 301, is amended to read as follows:*

6 *“(3) ADJUSTED NET CAPITAL GAIN.—For pur-*
7 *poses of this subsection, the term ‘adjusted net capital*
8 *gain’ means the sum of—*

9 *“(A) net capital gain (determined without*
10 *regard to paragraph (11)) reduced (but not*
11 *below zero) by the sum of—*

12 *“(i) unrecaptured section 1250 gain,*
13 *and*

14 *“(ii) 28-percent rate gain, plus*

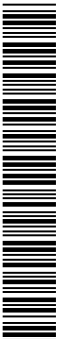
15 *“(B) qualified dividend income (as defined*
16 *in paragraph (11)).”*

17 *(2) Subsection (f) of section 301 is amended add-*
18 *ing at the end the following new paragraph:*

19 *“(4) For taxation of dividends received by indi-*
20 *viduals at capital gain rates, see section 1(h)(11).”*

21 *(3) Paragraph (1) of section 306(a) is amended*
22 *by adding at the end the following new subparagraph:*

23 *“(D) TREATMENT AS DIVIDEND.—For pur-*
24 *poses of section 1(h)(11), any amount treated as*
25 *ordinary income under this paragraph shall be*



1 *treated as a dividend received from the corpora-*
2 *tion.”*

3 (4)(A) *Subpart C of part II of subchapter C of*
4 *chapter 1 (relating to collapsible corporations) is re-*
5 *pealed.*

6 (B)(i) *Section 338(h) is amended by striking*
7 *paragraph (14).*

8 (ii) *Sections 467(c)(5)(C), 1255(b)(2), and*
9 *1257(d) are each amended by striking “, 341(e)(12),”.*

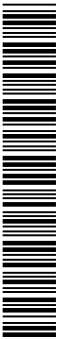
10 (iii) *The table of subparts for part II of sub-*
11 *chapter C of chapter 1 is amended by striking the*
12 *item related to subpart C.*

13 (5) *Section 531 is amended by striking “equal*
14 *to” and all that follows and inserting “equal to 15*
15 *percent of the accumulated taxable income.”*

16 (6) *Section 541 is amended by striking “equal*
17 *to” and all that follows and inserting “equal to 15*
18 *percent of the undistributed personal holding com-*
19 *pany income.”*

20 (7) *Section 584(c) is amended by adding at the*
21 *end the following new flush sentence:*

22 *“The proportionate share of each participant in the amount*
23 *of dividends received by the common trust fund and to*
24 *which section 1(h)(11) applies shall be considered for pur-*



1 *poses of such paragraph as having been received by such*
2 *participant.”*

3 *(8) Paragraph (5) of section 702(a) is amended*
4 *to read as follows:*

5 *“(5) dividends with respect to which section*
6 *1(h)(11) or part VII of subchapter B applies,”.*

7 *(f) EFFECTIVE DATE.—The amendments made by this*
8 *section shall apply to taxable years beginning after Decem-*
9 *ber 31, 2002.*

10 **SEC. 303. SUNSET OF TITLE.**

11 *All provisions of, and amendments made by, this title*
12 *shall not apply to taxable years beginning after December*
13 *31, 2012, and the Internal Revenue Code of 1986 shall be*
14 *applied and administered to such years as if such provi-*
15 *sions and amendments had never been enacted.*

16 **TITLE IV—CORPORATE ESTI-**
17 **MATED TAX PAYMENTS FOR**
18 **2003**

19 **SEC. 401. TIME FOR PAYMENT OF CORPORATE ESTIMATED**
20 **TAXES.**

21 *Notwithstanding section 6655 of the Internal Revenue*
22 *Code of 1986, 52 percent of the amount of any required*
23 *installment of corporate estimated tax which is otherwise*
24 *due in September 2003 shall not be due until October 1,*
25 *2003.*



Amend the title so as to read: “A bill to provide for reconciliation pursuant to section 201 of the concurrent resolution on the budget for fiscal year 2004.”

